

LITTLE HOOVER COMMISSION

“Affordable Housing in California”

June 28, 2001

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SUBJECT: The Impact of Prevailing Wage Requirements on the Production
Of Affordable Housing

PREMISE: Prevailing wage requirements increase the cost of housing, effects the economic feasibility of affordable housing projects, and restrains the ability to retain quality workers, and ultimately the quality of construction.

ANALYSIS: Prevailing wage requirements do have the following impacts on
“Affordable” or ” Workforce” or “Attainable” For-Sale or Rental Housing:

1. Cost of Construction:
Prevailing wage generally applies to only commercial public works jobs. Since very little residential work is done with prevailing wage, the wage rates used are usually commercial, which are higher than residential, creating the following effect:
 - Site improvement is higher by 10 to 15%.
 - Direct construction costs are higher by 20 to 35%.
2. Cost of Administration:
 - Record keeping, accounting, and purchasing administration is more complex for the builder and the subcontractors.
 - Outside labor consultants are many times required.
3. Availability of Qualified Workers:
 - Many of the trades that will work under prevailing wage, do not have workers that do the kind of work needed for residential such as (construction cleanup, interior furnishings Delivery and installation). The law favors larger contractors.
4. Time required for Determination:
 - Substantial time and effort are required to submit to the Department of Industrial Relations with the increased risks of “Broad interpretation”.

5. Increased Risks of Fines, Penalties, and Criminal Sanctions for Non-compliance or Bookkeeping Issues:
 - These risks, accompanying legal fees, and loss of productive time reduce the desirability of doing this type of work
6. Quality of workers and Quality of Construction:
 - The ability to retain quality workers is not a problem under prevailing wage...workers are paid more!
 - The quality of construction is no different under prevailing wage.
 - Productivity of workers is no different under prevailing wage, except the concept of “piece-work” goes away, because everybody is an “hourly worker” which actually slows the construction progress.

RESULT:

1. The Largest Homebuilders are public companies that cannot afford risks of uncertainty or unpredictability.... Wall Street punishes idle money!!!!
2. Private Builders do not have deep pockets and try to avoid unusual“ risks”.
3. Low priced housing have very little margin to deal with substantially higher Building costs.
4. Builders would prefer buying graded “Ready-to-Build” suburban lots rather than lower-priced “unentitled” urban land associated with Redevelopment Agency work.

CONCLUSION:

Prevailing wage requirements do affect the feasibility, and risks of building affordable housing. These risks do create “challenges” for Redevelopment Agencies in the state of California. The challenges are probably manageable by these agencies as long as they have the financial resources to pay the extra costs.